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Third Party Communication: None

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Date:

December 17, 2007

P1 =

P2 =

Distributing =

State =

Country A =

Country B =

r =

x =

y =

z =

Year 1 =

Year 2 =

Industry C =

Dear :

This letter responds to your October 4, 2007 letter requesting rulings as to certain Federal income tax consequences of proposed transactions. The information provided in that letter and in later correspondence is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process. In particular, this office has not reviewed any information pertaining to, and has made no determination regarding, whether the proposed transaction: (i) satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations; (ii) is used principally as a device for the distribution of the earnings and profits of Distributing or Controlled or both (see § 355(a)(1)(B) and § 1.355-2(d)); and (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest in any distributing corporation or controlled corporation (see § 355(e) and § 1.355-7).

SUMMARY OF FACTS

P1 is the common parent of an affiliated group of companies that files a consolidated Federal income tax return with its eligible members on a calendar year basis. P1 wholly owns P2. P1 and P2 are organized in State.

Distributing is organized in Country A. P1 owns x percent of Distributing and P2 owns y percent of Distributing for Federal income tax purposes (*i.e.*, without regard to the interest that a disregarded entity owns in Distributing). P1 and P2 acquired x percent and y percent in Distributing in a series of tax-free transactions in Year 1 followed by two taxable redemptions in each of Year 1 and Year 2 in which Distributing redeemed shares that P2 held. Years 1 and 2 are within the five-year pre-distribution period.

Prior to this series of transactions, P1 owned Distributing indirectly, through a first-tier U.S. subsidiary and a second-tier foreign subsidiary, and P2 owned no shares of Distributing. In Year 1, the second-tier foreign subsidiary liquidated into the first-tier U.S. subsidiary in a transaction described in § 332. The first-tier U.S. subsidiary merged into P1 in a transaction described in § 368(a)(1)(A), and shortly thereafter P1 contributed z percent of its interest in Distributing to P2 in a transaction described in § 351. Ultimately, the interests of P1 and P2 in Distributing are x percent and y percent respectively, as a result of the taxable redemptions in Year 1 and Year 2.

Distributing is engaged in Industry C worldwide through various foreign subsidiaries and disregarded entities, including wholly-owned Country B Group, comprised of a disregarded entity owning a chain of subsidiaries organized in Country B.

P1's management seeks to acquire additional foreign entities in Industry C and believes that it can optimize financing for future acquisitions via the Country B Group if the Country B Group were owned directly by P2 and not by Distributing.

Distributing has filed financial information indicating that each of Country B Group and Distributing and the entities that it retains have had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

PROPOSED TRANSACTIONS

To achieve the stated corporate business purpose, the taxpayer proposes the following transactions:

1. Distributing will amend its bylaws to change its status from a generally tax-exempt entity to a fully taxable entity for Country A purposes.
2. Distributing will recapitalize its stock into r different classes.
3. As noted above, P1 owns x percent of Distributing and P2 owns y percent of Distributing for Federal income tax purposes, *i.e.*, without regard to the interest that a disregarded entity owns in Distributing. Distributing will redeem the shares the disregarded entity holds, thereby conforming ownership for legal purposes with ownership for Federal income tax purposes.
4. Distributing will form Controlled, a new holding company organized in Country B.
5. Distributing will contribute Country B Group to Controlled in exchange for additional shares of Controlled, whether actually issued or deemed issued.
6. Distributing will distribute, pro rata, all its shares of Controlled stock to Distributing's shareholders, P1 and P2.
7. P1 will contribute its x percent interest in Controlled to P2 in exchange for additional shares of P2, whether actually issued or deemed issued.

Certain transactions will continue between Distributing and Controlled, including cross-chain product sales and sharing of a logistics and distribution center. In addition, certain executives will continue to oversee the Distributing and Controlled active businesses. (Hereinafter, both types of transactions will comprise "Continuing

Transactions.”) The salaries of these executives will be allocated to members of the Distributing and Controlled separate affiliated groups, as defined in § 355(b)(3)(B) (hereinafter, “SAGs”), in proportion to the services rendered each, consistent with current practice. Payments made in connection with all Continuing Transactions will be for fair market value based on terms and conditions for which the parties bargain at arms’ length.

REPRESENTATIONS

The taxpayer represents as follows:

1. Any indebtedness that Controlled (or any member of its SAG) owes to Distributing (or any member of its SAG) after the distribution will not constitute stock or securities.
2. No part of the consideration distributed by Distributing will be received by P1 and P2 as a creditor, employee, or in any capacity other than in that of a shareholder of Distributing.
3. The five years of financial information submitted on behalf of Distributing’s retained subsidiaries (members of the Distributing SAG (as defined in § 355(b)(3)(B)) that will conduct Distributing’s active trade or business and on behalf of Controlled and the Country B Group (members of the Controlled SAG) is representative of the current operations of each business, and there have been no substantial operational changes in either business since the date of the last financial statements submitted. Distributing’s retained subsidiaries are, and immediately after the distribution will be, affiliated with Distributing in a manner that satisfies § 1504(a), without regard to § 1504(b). Following the contribution, and immediately after the distribution, the Country B Group will be affiliated with Controlled in a manner that satisfies § 1504(a), without regard to § 1504(b).
4. Neither the Distributing active business nor control of any entity conducting this business was acquired during the five-year period ending on the date of the distribution in a transaction in which gain or loss was recognized in whole or in part. Throughout the five-year period ending on the date of the distribution, Distributing and/or its retained subsidiaries have been the principal owners of the goodwill and significant assets of the Distributing active business and will continue to be the owners following the distribution.
5. Neither the Controlled active business nor control of an entity conducting this business was acquired during the five-year period ending on the date of the distribution in a transaction in which gain or loss was recognized in whole or in part. Throughout the five-year period ending on the date of the distribution, the Country B Group has been the principal owner of the goodwill and significant

assets of the Controlled active business and will continue to be the owner following the distribution.

6. Following the distribution, the Distributing SAG will continue the active conduct of the Distributing active business (through the retained subsidiaries), independently and with its separate employees, except for Continuing Transactions.
7. Following the distribution, the Controlled SAG will continue the active conduct of the Controlled active business (through the Country B Group), independently and with its separate employees, except for Continuing Transactions.
8. The distribution will facilitate the financing of future foreign acquisitions by improving the borrowing capability of the Country B Group. The distribution is motivated in whole or substantial part by this corporate business purpose.
9. The distribution will not be used principally as a device for the distribution of the earnings and profits of Distributing, Controlled, or both.
10. No plan or intention exists to liquidate Distributing, any of the retained subsidiaries, or any member of the Country B Group, to merge any of these entities with any other entity, to dispose of Controlled after the distribution, or to sell or otherwise dispose of the assets of any of these entities after the distribution, except in the ordinary course of business.
11. The total adjusted basis and fair market value of the assets transferred to Controlled in the contribution will equal or exceed the sum of (i) the total liabilities assumed (as determined under § 357(d)) by Controlled and (ii) the total amount of any money and the fair market value of any other property (within the meaning of § 361(b)) received by Distributing and transferred to its creditors in connection with the reorganization.
12. Any liabilities to be assumed (as determined under § 357(d)) by Controlled in the contribution were incurred in the ordinary course of business and are associated with the assets being transferred.
13. The total fair market value of the assets transferred to Controlled in the contribution will exceed the sum of (i) the amount of any liabilities assumed (as determined under § 357(d)) by Controlled in connection with the exchange, (ii) the amount of any liabilities owed to Controlled by Distributing that are discharged or extinguished in connection with the exchange, and (iii) the amount of any cash and the fair market value of any other property (other than stock and securities permitted to be received under § 361(a) without the recognition of gain) received by Distributing in connection with the exchange. The fair market value

of the assets of Controlled will exceed the amount of its liabilities immediately after the exchange.

14. The aggregate fair market value of the assets Distributing transfers in the contribution will equal or exceed the aggregate adjusted basis of these assets.
15. Distributing will neither accumulate its receivables nor make extraordinary payment of its payables in anticipation of the distribution.
16. No intercorporate debt will exist between Distributing (or any member of its SAG) and Controlled (or any member of its SAG) at the time of, or after, the distribution, other than intercompany loans that have arisen, or will arise, between the parties in the ordinary course of business.
17. Payments made in connection with all continuing transactions, if any, between Distributing (or any member of its SAG) and Controlled (or any member of its SAG) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
18. No two parties to the distribution are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).
19. For purposes of § 355(d), immediately after the distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Distributing stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Distributing stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the distribution.
20. For purposes of § 355(d), immediately after the distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Controlled stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Controlled stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the distribution or (ii) attributable to distributions on Distributing stock or securities that were acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the distribution.
21. The distribution is not part of a plan or series of related transactions (within the meaning of Treas. Reg. § 1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest

(within the meaning of § 355(d)(4)) in Distributing or Controlled (including any predecessor or successor of any such corporation).

22. Immediately after the transaction (as defined in § 355(g)(4)), either (1) no person will hold a 50-percent or greater interest (within the meaning of § 355(g)(3)) in Distributing or Controlled, (2) if any person holds a 50-percent or greater interest (within the meaning of § 355(g)(3)) in any disqualified investment corporation (within the meaning of § 355(g)(2)), such person will have held such interest in such corporation immediately before the transaction, or (3) neither Distributing nor Controlled will be a disqualified investment corporation (within the meaning of § 355(g)(2)).
23. P1's postdistribution amount, as defined by Treas. Reg. § 1.367(b)-5(e)(2), with respect to Distributing is greater than or equal to its predistribution amount, as defined by Treas. Reg. § 1.367(b)-5(e)(1) with respect to Distributing.
24. P1's postdistribution amount, as defined by Treas. Reg. § 1.367(b)-5(e)(2), with respect to Controlled is greater than or equal to its predistribution amount, as defined by Treas. Reg. § 1.367(b)-5(e)(1) with respect to Controlled.
25. P2's postdistribution amount, as defined by Treas. Reg. § 1.367(b)-5(e)(2), with respect to Distributing is greater than or equal to its predistribution amount, as defined by Treas. Reg. § 1.367(b)-5(e)(1) with respect to Distributing.
26. P2's postdistribution amount, as defined by Treas. Reg. § 1.367(b)-5(e)(2), with respect to Controlled is greater than or equal to its predistribution amount, as defined by Treas. Reg. § 1.367(b)-5(e)(1) with respect to Controlled.

RULINGS

Based solely upon the information submitted and representations made, we rule as follows:

1. The contribution of Country B Group to Controlled followed by the distribution of Controlled stock to P1 and P2 will be a reorganization under § 368(a)(1)(D). Distributing and Controlled will each be "a party to the reorganization" under § 368(b).
2. No gain or loss will be recognized by Distributing on the contribution (§ 361(a) and § 357(a)).
3. No gain or loss will be recognized by Controlled on the contribution (§ 1032(a)).

4. The basis of each asset received by Controlled in the contribution will equal the basis of that asset in the hands of Distributing immediately before the contribution (§ 362(b)).
5. The holding period of each asset that Controlled received in the contribution will include the period during which Distributing held that asset (§ 1223(2)).
6. No gain or loss will be recognized by Distributing on the distribution (§ 361(c)(1)).
7. No gain or loss will be recognized by P1 and P2 on the distribution (§ 355(a)(1)).
8. The aggregate basis of the Distributing stock and the Controlled stock in the hands of P1 will equal the aggregate basis of the Distributing stock held by P1 immediately before the distribution, allocated between the stock of Distributing and Controlled in proportion to the fair market value of each that P1 holds immediately following the distribution in accordance with Treas. Reg. § 1.358-2(a)(2) (§ 358(b) and § 358(c)).
9. The aggregate basis of the Distributing stock and the Controlled stock in the hands of P2 will equal the aggregate basis of the Distributing stock held by P2 immediately before the distribution, allocated between the stock of Distributing and Controlled in proportion to the fair market value of each that P2 holds immediately following the distribution in accordance with Treas. Reg. § 1.358-2(a)(2) (§ 358(b) and § 358(c)).
10. The holding period of the Controlled stock that P1 and P2 receive in the distribution will include the holding period of the Distributing stock on which the distribution is made, provided the Distributing stock was held as a capital asset on the date of the distribution (§ 1223(1)).
11. Earnings and profits, if any, will be allocated between Distributing and Controlled in accordance with § 312(h) and Treas. Reg. § 1.312-10(a).

CAVEATS

Except as expressly provided herein, we express no opinion about the tax treatment of the Proposed Transactions under other provisions of the Code and regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transactions that are not specifically covered by the above rulings. In particular, this office has not reviewed any information pertaining to, and has made no determination regarding:

- (i) Whether the distribution satisfies the business purpose requirement of Treas. Reg. § 1.355-2(b);

- (ii) Whether the distribution is used principally as a device for the distribution of the earnings and profits of Distributing or Controlled or both;
- (iii) Whether the distribution and an acquisition or acquisitions are part of a plan (or series of related transactions) under § 355(e)(2)(A)(ii);
- (iv) The Federal income tax consequences or characterizations of Distributing's recapitalization (Proposed Transaction #2), P1's contribution of shares of Controlled stock to P2 (Proposed Transaction #7), any of the transactions in Year 1, and Distributing's redemption of P2's stock in Year 2; and
- (v) The Federal income tax consequences under § 367 resulting from any transaction described above.

PROCEDURAL STATEMENTS

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this ruling letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to the return that provides the date and control number of the letter ruling.

In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Alfred C. Bishop, Jr.
Branch Chief, Branch 6
Office of Associate Chief Counsel (Corporate)

cc: